



# Money



# What is money?

- Any object that is accepted for payments of debts by society
- 4 basic categories
  - Commodity money: gets its value from the commodity it is made from (gold, silver, etc)
  - Representative money: derives its value from the commodity it represents (gold certificate)
  - Fiat money: value derived from government mandate
  - “Checkbook money”: unprinted, electronic representations of money (checkable/demand deposits)

# Functions of Money

- Medium of exchange
  - Must be accepted by people/institutions
  - Portable, divisible, mostly uniform
- Standard of value
  - Must be useful for quoting prices
  - Familiar, divisible
- Store of Value
  - Must maintain AT LEAST face value
  - Durable, stable

# Categories of Money

- M0
  - ONLY cash and coins
- M1

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  - Currency, checkable deposits, traveler's checks
  - Most narrow definition of money
  - Checkable deposits make up 75%
- M2
  - Everything in M1
  - Small-Scale Time Deposits (<\$100,000)
  - Savings Accounts
  - Individual Money Market Mutual Funds (MMMF)
- M3
  - Everything in M2
  - Large scale time deposits, institutional assets and funds, foreign deposits